

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND SCHEDULE OF FINDINGS  
AND QUESTIONED COSTS

JUNE 30, 2010

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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2010

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2009 Election)		
Angie Kemp	Board President	2011
Eric Schlutz	Board Member	2009
Riley Padgett	Board Member	2009
David Bieri	Board Member	2011
Randy Schlutz	Board Member	2011
(After September 2009 Election)		
Angie Kemp	Board President	2011
David Bieri	Board Member	2011
Randy Schlutz	Board Member	2011
Eric Schlutz	Board Member	2013
Riley Padgett	Board Member	2013
<b>School Officials</b>		
Scott Grimes	Superintendent	2010
Karron Stineman	District Secretary/Treasurer	Indefinite
Duane Goedken	Attorney	Indefinite

# KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Louisa-Muscatine Community School District as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated January 20, 2011 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, and schedule 8 the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. In my opinion, the information set forth in the supplementary information for each of the seven years in the period ended June 30, 2010, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
January 20, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Louisa-Muscatine Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2010 Financial Highlights

- General Fund revenues decreased from \$8,181,210 in fiscal 2009 to \$7,612,469 in fiscal 2010 and General Fund expenditures increased from \$8,060,781 in fiscal 2009 to \$8,134,093 in fiscal 2010. The District's General Fund balance decreased from \$2,162,023 in fiscal 2009 to \$1,640,399 in fiscal 2010, a 24% decrease.
- The decrease in General Fund revenues was primarily attributable to a 10% across-the-board cut to state foundation aide by Governor Culver in October 2009.
- Many factors make up the increase in General Fund expenditures including the usual raises in negotiated salaries and benefits.
- The General Fund balance decreased \$521,624 (24%) due to the district spending down reserve funds and the 10% across-the-board cut to state aid.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Louisa-Muscatine Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Louisa-Muscatine Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor governmental and enterprise funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Louisa-Muscatine Community School District Annual Financial Report***

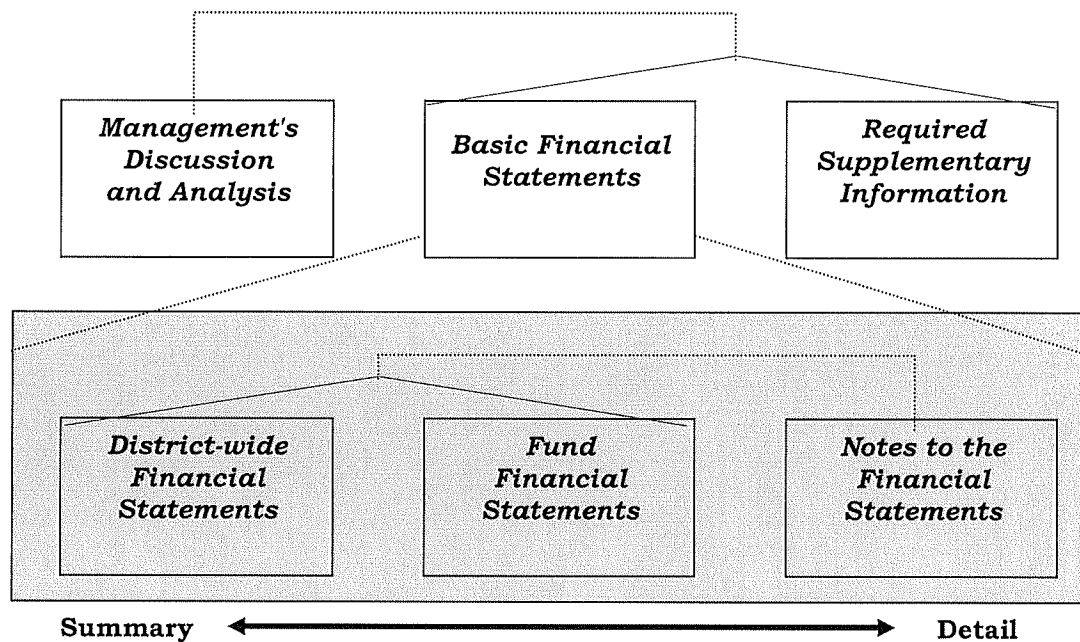




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

***Major Features of the Government-wide and Fund Financial Statements***

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool/daycare programs	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and daycare/preschool programs are included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Daycare/Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a private-purpose trust fund.

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for the fiduciary fund includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-2010</u>
Current and other assets	\$ 9,033,710	\$ 8,055,932	\$ 189,550	\$ 190,373	\$ 9,223,260	\$ 8,246,305	11.85%
Capital assets	<u>11,477,714</u>	<u>7,003,330</u>	<u>14,335</u>	<u>14,288</u>	<u>11,492,049</u>	<u>7,017,618</u>	63.76%
Total assets	<u>20,511,424</u>	<u>15,059,262</u>	<u>203,885</u>	<u>204,661</u>	<u>20,715,309</u>	<u>15,263,923</u>	35.71%
Long-term liabilities	5,895,676	845,000	-	-	5,895,676	845,000	597.71%
Other liabilities	<u>4,368,423</u>	<u>4,020,797</u>	<u>30,099</u>	<u>32,640</u>	<u>4,398,522</u>	<u>4,053,437</u>	8.51%
Total liabilities	<u>10,264,099</u>	<u>4,865,797</u>	<u>30,099</u>	<u>32,640</u>	<u>10,294,198</u>	<u>4,898,437</u>	110.15%
Net assets							
Invested in capital assets, net of related debt	6,303,233	6,198,330	14,335	14,288	6,317,568	6,212,618	1.69%
Restricted	2,723,092	1,622,455	-	-	2,723,092	1,622,455	67.84%
Unrestricted	<u>1,221,000</u>	<u>2,372,680</u>	<u>159,451</u>	<u>157,733</u>	<u>1,380,451</u>	<u>2,530,413</u>	-45.45%
Total net assets	<u>\$ 10,247,325</u>	<u>\$ 10,193,465</u>	<u>\$ 173,786</u>	<u>\$ 172,021</u>	<u>\$ 10,421,111</u>	<u>\$ 10,365,486</u>	0.54%

The District's combined net assets increased by approximately .5%, or \$55,625, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The

debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$1,100,637, or approximately 68% from the prior year. Some of the factors for this increase include unspent bond proceeds in the Capital Projects Fund for the junior-senior high remodeling project and deposits and unexpended funds in the Special Revenue and Physical Plant and Equipment Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$1,149,964, or approximately 46%. This reduction in the unrestricted net assets was primarily a result of General Fund expenditures exceeding revenues.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4  
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-2010
Revenues							
Program revenues							
Charges for service	\$ 981,726	\$ 1,164,933	\$ 317,974	\$ 300,955	\$ 1,299,700	\$ 1,465,888	-11.34%
Operating grants and contributions	1,662,907	1,285,157	213,118	184,997	1,876,025	1,470,154	27.61%
General revenues							
Property tax	3,485,366	3,592,901	-	-	3,485,366	3,592,901	-2.99%
Statewide sales, services and use tax	490,847	541,687	-	-	490,847	541,687	-9.39%
Unrestricted state grants	2,457,388	3,093,561	-	-	2,457,388	3,093,561	-20.56%
Contributions and donations	12,160	62,162	-	-	12,160	62,162	-80.44%
Unrestricted investment earnings	14,765	42,256	570	1,940	15,335	44,196	-65.30%
Other	<u>23,642</u>	<u>17,713</u>	<u>-</u>	<u>-</u>	<u>23,642</u>	<u>17,713</u>	33.47%
Total revenues	<u>9,128,801</u>	<u>9,800,370</u>	<u>531,662</u>	<u>487,892</u>	<u>9,660,463</u>	<u>10,288,262</u>	-6.10%
Program expenses							
Governmental activities							
Instruction	5,837,693	5,836,063	-	-	5,837,693	5,836,063	0.03%
Support services	2,409,057	2,432,900	-	-	2,409,057	2,432,900	-0.98%
Non-instructional programs	7,403	8,403	479,897	471,314	487,300	479,717	1.58%
Other expenses	<u>870,788</u>	<u>923,450</u>	<u>-</u>	<u>-</u>	<u>870,788</u>	<u>923,450</u>	-5.70%
Total expenses	9,124,941	9,200,816	479,897	471,314	9,604,838	9,672,130	-0.70%
Transfers	<u>50,000</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	0.00%
Changes in net assets	53,860	599,554	1,765	16,578	55,625	616,132	-90.97%
Net assets, beginning of year	<u>10,193,465</u>	<u>9,593,911</u>	<u>172,021</u>	<u>155,443</u>	<u>10,365,486</u>	<u>9,749,354</u>	6.32%
Net assets, end of year	<u>\$ 10,247,325</u>	<u>\$ 10,193,465</u>	<u>\$ 173,786</u>	<u>\$ 172,021</u>	<u>\$ 10,421,111</u>	<u>\$ 10,365,486</u>	0.54%

In fiscal 2010, property tax and unrestricted state grants account for 65% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$9,660,463 of which \$9,128,801 was for governmental activities and \$531,662 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6% decrease in revenues and a .7% decrease in expenses. The decrease in revenues can be attributed, in part, to a reduction in state aid, property tax receipts, decreased grant awards and investment income. The decrease in expenditures is a result of carefully monitoring expenditures in these uncertain economic times.

### Governmental Activities

Revenues for governmental activities were \$9,128,801 and expenses were \$9,124,941 for the year ended June 30, 2010. The line-item budget was carefully monitored to ensure that expenditures did not exceed expected revenues. The District has reduced staff in all areas through attrition whenever possible.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009- 2010	2010	2009	Change 2009- 2010
Instruction	\$ 5,837,693	\$ 5,836,063	0.0%	\$ 3,543,635	\$ 3,709,943	-4.5%
Support services	2,409,057	2,432,900	-1.0%	2,389,212	2,420,267	-1.3%
Non-instructional programs	7,403	8,403	-11.9%	7,403	8,403	-11.9%
Other expenses	<u>870,788</u>	<u>923,450</u>	<u>-5.7%</u>	<u>540,058</u>	<u>612,113</u>	<u>-11.8%</u>
Total expenses	<u>\$ 9,124,941</u>	<u>\$ 9,200,816</u>	<u>-0.8%</u>	<u>\$ 6,480,308</u>	<u>\$ 6,750,726</u>	<u>-4.0%</u>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$981,726.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,662,907.
- The net cost of governmental activities was financed with \$3,485,366 in property taxes and \$2,457,388 in unrestricted state grants.

## **Business Type Activities**

Revenues for business type activities for the year ended June 30, 2010 were \$531,662, representing a 9% increase from the prior year while expenses totaled \$479,897 a 2% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The 9% increase in revenue can be attributed to increased federal reimbursement for free and reduced price meals and 5 year olds and special education students that attended Busy Hands Preschool for whom the District paid tuition. The 2% increase in expenses can be attributed, in part, to the usual increases in personnel costs and the cost of supplies.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Louisa-Muscatine Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,394,326, significantly above last year's ending fund balances of \$3,728,183. The primary reason for the increase in combined fund balances at the end of fiscal year 2010 is due to unexpended revenue bond proceeds received in fiscal year 2010.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$2,162,023 in 2009 to \$1,640,399 in fiscal 2010. The District's deteriorating General Fund financial position is the result of many factors, including a reduction in state funding for the fiscal year 2010 and the district's decision to spend down reserve funds.
- The Capital Project Fund balance increased from \$868,962 in fiscal 2009 to \$2,001,310 in fiscal 2010. This increase was mostly due to unexpended revenue bond proceeds that are expected to be expended in the next fiscal year.

### **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$172,021 at June 30, 2009 to \$173,786 at June 30, 2010, representing an increase of less than 1%. Busy Hands again served 5 year old and special education students for which they received tuition from the District.

## **BUDGETARY HIGHLIGHTS**

During the fiscal year, Louisa-Muscatine Community School District amended its annual budget one time to reflect additional expenditures associated with the remodeling project at the Jr/Sr High School building.

The District's revenues were \$394,081 less than budgeted revenues, a variance of approximately 4%. The budget is certified in the spring prior to the beginning of the fiscal year. At that time many things were not known, including the cuts by the state.

Overall total expenditures were \$1,973,165 less than budgeted. The District budgets expenditures at the maximum authorized spending authority for the General Fund then controls spending through the line-item budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$11,492,049, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 64% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$446,011.

The original cost of the District's capital assets was \$20,427,813. Governmental funds account for \$20,218,446, with the remainder of \$209,367 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity occurred in construction in progress category, from \$0 in 2009 to \$4,764,481 in 2010. The increase was due a remodel project at the Jr/Sr High School building started in fiscal 2010 and will be completed in fiscal 2011.

Figure A-6

#### Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2009-</u> <u>2010</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Construction in progress	4,764,481	-	-	-	4,764,481	-	100.00%
Buildings and improvements	6,049,024	6,364,571	-	-	6,049,024	6,364,571	-4.96%
Improvements, other than buildings	112,877	130,494	-	-	112,877	130,494	-13.50%
Furniture and equipment	<u>460,356</u>	<u>417,289</u>	<u>14,335</u>	<u>14,288</u>	<u>474,691</u>	<u>431,577</u>	9.99%
Totals	<u>\$11,477,714</u>	<u>\$7,003,330</u>	<u>\$14,335</u>	<u>\$14,288</u>	<u>\$11,492,049</u>	<u>\$7,017,618</u>	63.76%

## Long-Term Debt

At June 30, 2010, the District had \$5,895,676 in general obligation and other long-term debt outstanding. This represents an increase of approximately 600% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

This district continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$5.71 million.

In November 2009, the District issued \$5,300,000 in Qualified School Construction Bonds (QSCB) revenue bonds to finance, in part, the remodeling project at the Jr/Sr High School building. These bonds will be repaid from the District's Statewide Sales, Services and Use Tax revenues and are not a general obligation of the District.

Figure A-7  
Outstanding Long-term Obligations

	Total		Total
	District		Change
	<u>2010</u>	<u>2009</u>	<u>2009-</u> <u>2010</u>
General obligation bonds	\$ 410,000	\$ 805,000	-49.07%
Revenue bonds	5,300,000	-	100.00%
Termination benefits	170,000	40,000	325.00%
Net OPEB liability	<u>15,676</u>	<u>-</u>	100.00%
Total	<u>\$ 5,895,676</u>	<u>\$ 845,000</u>	597.71%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The district continues to experience declining enrollment for the fourth year in a row. The certified enrollment for FY11 was down from the previous year by 20.8 students. The district has experienced a loss of 128.8 students since 2007-2008.
- The elementary school bonds will be retired in the 2010-2011 fiscal year.
- Allowable growth for FY11 is unknown at this time but will most likely be set at 0%.



## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170<sup>th</sup> Street, Letts, Iowa 52754.

## Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2010

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 5,116,505	\$176,901	\$ 5,293,406
Receivables			
Property tax			
Delinquent	44,966	-	44,966
Succeeding year	3,247,292	-	3,247,292
Accounts receivable	75,919	195	76,114
Income surtax	308,381	-	308,381
Due from other governments	240,647	-	240,647
Inventories	-	12,454	12,454
Non-depreciable capital assets	4,855,457	-	4,855,457
Capital assets, net of accumulated depreciation	6,622,257	14,335	6,636,592
Total assets	<u>20,511,424</u>	<u>203,885</u>	<u>20,715,309</u>
<b>Liabilities</b>			
Accounts payable	230,933	-	230,933
Salaries and benefits payable	794,833	23,771	818,604
Accrued interest payable	95,365	-	95,365
Deferred revenue			
Succeeding year property tax	3,247,292	-	3,247,292
Other	-	6,328	6,328
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	410,000	-	410,000
Termination benefits payable	65,000	-	65,000
Portion due after one year			
Revenue QSCB bonds payable	5,300,000	-	5,300,000
Termination benefits payable	105,000	-	105,000
Net OPEB liability	15,676	-	15,676
Total liabilities	<u>10,264,099</u>	<u>30,099</u>	<u>10,294,198</u>

See notes to Financial Statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2010

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 6,303,233	\$ 14,335	\$ 6,317,568
Restricted for			
Categorical funding	102,836	-	102,836
Physical plant and equipment levy	363,018	-	363,018
Debt service	205,510	-	205,510
Other special revenue purposes	50,418	-	50,418
Capital projects	2,001,310	-	2,001,310
Unrestricted	<u>1,221,000</u>	<u>159,451</u>	<u>1,380,451</u>
Total net assets	<u><u>\$10,247,325</u></u>	<u><u>\$173,786</u></u>	<u><u>\$10,421,111</u></u>

See notes to Financial Statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2010

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
<b><u>Functions/Programs</u></b>						
Governmental activities						
Instruction						
Regular instruction	\$ 3,860,151	\$ 741,627	\$ 1,116,665	\$ -	\$ (2,001,859)	\$ -
Special instruction	882,877	155,897	181,814	-	(545,166)	-
Other instruction	1,094,665	75,023	23,032	-	(996,610)	-
	5,837,693	972,547	1,321,511	-	(3,543,635)	-
Support services						
Student	248,018	-	-	-	(248,018)	-
Instructional staff	341,876	-	10,666	-	(331,210)	-
Administration	806,416	-	-	-	(806,416)	-
Operation and maintenance of plant	548,791	-	-	-	(548,791)	-
Transportation	461,692	9,179	-	-	(452,513)	-
Central support	2,264	-	-	-	(2,264)	-
	2,409,057	9,179	10,666	-	(2,389,212)	-
	7,403	-	-	-	(7,403)	-
Non-instructional programs						
Other expenses						
Long-term debt interest	198,998	-	-	-	(198,998)	-
AEA flowthrough	330,730	-	330,730	-	-	-
Depreciation (unallocated) *	341,060	-	-	-	(341,060)	-
	870,788	-	330,730	-	(540,058)	-
	9,124,941	981,726	1,662,907	-	(6,480,308)	-
Total governmental activities						

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2010

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
<b><u>Functions/Programs (continued)</u></b>						
Business type activities						
Non-instructional programs						
Food service operations	\$ 400,591	\$ 213,317	\$ 213,118	\$ -	\$ -	\$ 25,844
Daycare/preschool program	79,306	104,657	-	-	-	25,351
Total business type activities	479,897	317,974	213,118	-	-	51,195
Total	\$ 9,604,838	\$ 1,299,700	\$ 1,876,025	\$ -	(6,480,308)	51,195
						(6,429,113)
<b><u>General Revenues</u></b>						
Property tax levied for						
General purposes					2,790,497	-
Debt service					435,758	-
Capital outlay					259,111	-
Statewide sales, services and use tax					490,847	-
Unrestricted state grants					2,457,388	-
Contributions and donations					12,160	-
Unrestricted investment earnings					14,765	570
Other					23,642	-
Transfers					50,000	(50,000)
Total general revenues and transfers					6,534,168	(49,430)
Change in net assets					53,860	1,765
Net assets, beginning of year					10,193,465	172,021
Net assets, end of year					\$ 10,247,325	\$ 173,786

\* This amount excludes the depreciation included in the direct expenses of the various programs.  
See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2010

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments	\$2,361,151	\$1,787,030	\$ 741,667	\$4,889,848
Investment with fiscal agent	-	226,657	-	226,657
Receivables				
Property tax				
Delinquent	34,016	-	10,950	44,966
Succeeding year	2,314,804	-	932,488	3,247,292
Accounts receivable	75,919	-	-	75,919
Income surtax	277,543	-	30,838	308,381
Due from other governments	39,610	201,037	-	240,647
Total assets	<u>\$5,103,043</u>	<u>\$2,214,724</u>	<u>\$ 1,715,943</u>	<u>\$9,033,710</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 17,519	\$ 213,414	\$ -	\$ 230,933
Salaries and benefits payable	794,833	-	-	794,833
Deferred revenue				
Succeeding year property tax	2,314,804	-	932,488	3,247,292
Income surtax	277,543	-	30,838	308,381
Federal programs	57,945	-	-	57,945
Total liabilities	<u>3,462,644</u>	<u>213,414</u>	<u>963,326</u>	<u>4,639,384</u>
<b>Fund balances</b>				
Reserved for				
Debt service	-	-	300,875	300,875
Categorical funding	102,836	-	-	102,836
Unreserved governmental funds	1,537,563	2,001,310	-	3,538,873
Unreserved special revenue funds	-	-	451,742	451,742
Total fund balances	<u>1,640,399</u>	<u>2,001,310</u>	<u>752,617</u>	<u>4,394,326</u>
Total liabilities and fund balances	<u>\$5,103,043</u>	<u>\$2,214,724</u>	<u>\$ 1,715,943</u>	<u>\$9,033,710</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2010

Exhibit D

<b>Total fund balances of governmental funds</b>	<b>\$ 4,394,326</b>
--	---------------------

**Amounts reported for governmental activities in the Statement of Net Assets  
are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	11,477,714
---	------------

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	366,326
--	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(95,365)
--	----------

Long-term liabilities, including bonds payable and termination benefits and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,895,676)</u>
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<b>Net assets of governmental activities</b>	<b><u><u>\$10,247,325</u></u></b>
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LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2010

Exhibit E

		Capital	Nonmajor	
	<u>General</u>	<u>Projects</u>	<u>Governmental</u>	<u>Total</u>
Revenues			Funds	
Local sources				
Local tax	\$2,658,696	\$ 490,847	\$793,776	\$ 3,943,319
Tuition	785,368	-	-	785,368
Other	76,485	14,469	160,839	251,793
State sources	3,409,300	-	381	3,409,681
Federal sources	682,620	-	-	682,620
Total revenues	<u>7,612,469</u>	<u>505,316</u>	<u>954,996</u>	<u>9,072,781</u>
Expenditures				
Current				
Instruction				
Regular	3,636,412	-	141,963	3,778,375
Special	878,636	-	2,499	881,135
Other	956,692	-	134,845	1,091,537
	<u>5,471,740</u>	<u>-</u>	<u>279,307</u>	<u>5,751,047</u>
Support services				
Student	246,584	-	864	247,448
Instructional staff	340,109	-	1,038	341,147
Administration	786,757	-	11,589	798,346
Operation and maintenance of plant	594,026	-	60,266	654,292
Transportation	361,883	-	97,385	459,268
Other support	2,264	-	-	2,264
	<u>2,331,623</u>	<u>-</u>	<u>171,142</u>	<u>2,502,765</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>7,403</u>	<u>7,403</u>
Other expenditures				
Facilities acquisition	-	4,606,718	55,988	4,662,706
Long-term debt				
Principal	-	66,250	395,087	461,337
Interest and fiscal charges	-	-	40,650	40,650
AEA flowthrough	330,730	-	-	330,730
	<u>330,730</u>	<u>4,672,968</u>	<u>491,725</u>	<u>5,495,423</u>
Total expenditures	<u>8,134,093</u>	<u>4,672,968</u>	<u>949,577</u>	<u>13,756,638</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2010

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (521,624)</u>	<u>\$ (4,167,652)</u>	<u>\$ 5,419</u>	<u>\$ (4,683,857)</u>
Other financing sources (uses)				
Proceeds from issuance of bonds	-	5,300,000	-	5,300,000
Interfund operating transfers in	35,000	-	85,000	120,000
Interfund operating transfers (out)	<u>(35,000)</u>	<u>-</u>	<u>(35,000)</u>	<u>(70,000)</u>
Total other financing sources	<u>-</u>	<u>5,300,000</u>	<u>50,000</u>	<u>5,350,000</u>
Net change in fund balances	(521,624)	1,132,348	55,419	666,143
Fund balance, beginning of year	<u>2,162,023</u>	<u>868,962</u>	<u>697,198</u>	<u>3,728,183</u>
Fund balance, end of year	<u>\$1,640,399</u>	<u>\$ 2,001,310</u>	<u>\$752,617</u>	<u>\$ 4,394,326</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2010

Exhibit F

**Net change in fund balances - total governmental funds** \$ 666,143

**Amounts reported for governmental activities in the Statement of Activities  
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$4,915,672	
Depreciation expense	<u>(441,288)</u>	4,474,384

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. 56,020

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issued exceeded repayments, as follows:

Issued	(5,300,000)	
Repaid	<u>395,000</u>	(4,905,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	(130,000)	
Other postemployment benefits	<u>(15,676)</u>	(145,676)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (92,011)

**Change in net assets of governmental activities** \$ 53,860

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2010

Exhibit G

	Nonmajor <u>Enterprise</u>
<b>Assets</b>	
Cash and cash equivalents	\$176,901
Accounts receivable	195
Inventories	12,454
Capital assets, net of accumulated depreciation	<u>14,335</u>
Total assets	<u>203,885</u>
<b>Liabilities</b>	
Salaries and benefits payable	23,771
Deferred revenue	<u>6,328</u>
Total liabilities	<u>30,099</u>
<b>Net Assets</b>	
Invested in capital assets	14,335
Unrestricted	<u>159,451</u>
Total net assets	<u><u>\$173,786</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2010

Exhibit H

	Nonmajor <u>Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$317,974</u>
Operating expenses	
Instruction - Preschool/Daycare program	
Regular	
Salaries	59,775
Benefits	14,042
Purchased services	25
Supplies	<u>5,464</u>
	<u>79,306</u>
Support services - Food service operations	
Administration	
Salaries	20,619
Benefits	2,985
Purchased services	<u>1,008</u>
	<u>24,612</u>
Non-instructional programs	
Food service operations	
Salaries	145,657
Benefits	26,477
Purchased services	9,804
Supplies	189,317
Depreciation	<u>4,724</u>
	<u>375,979</u>
Total operating expenses	<u>479,897</u>
Operating loss	<u>(161,923)</u>
Non-operating revenue	
Interest income	570
State sources	4,081
Federal sources	<u>209,037</u>
Total non-operating revenue	<u>213,688</u>
Net income before transfers	51,765
Transfers out	<u>(50,000)</u>
Net income	1,765
Net assets, beginning of year	<u>172,021</u>
Net assets, end of year	<u>\$173,786</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2010

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 319,115
Cash payments to employees for services	(271,798)
Cash payments to suppliers for goods and services	<u>(180,442)</u>
Net cash used in operating activities	<u>(133,125)</u>
Cash flows from non-capital financing activities	
Operating transfers to other fund	(50,000)
State grants received	4,081
Federal grants received	<u>181,386</u>
Net cash provided by non-capital financing activities	<u>135,467</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(4,770)</u>
Cash flows from investing activities	
Interest on investments	<u>570</u>
Net decrease in cash and cash equivalents	<u>(1,858)</u>
Cash and cash equivalents, beginning of year	<u>178,759</u>
Cash and cash equivalents, end of year	<u><u>\$ 176,901</u></u>

**Reconciliation of operating loss to net cash  
used in operating activities**

Operating loss	\$(161,923)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	4,724
Commodities used	27,651
(Increase) in accounts receivable	(220)
(Increase) in inventory	(841)
(Decrease) in accounts payable	(1,609)
Increase in due to other governments	1,336
(Decrease) in accrued salaries and benefits	<u>(2,243)</u>
Net cash used in operating activities	<u><u>\$(133,125)</u></u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2010 the District received \$27,651 of federal commodities.

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Year Ended June 30, 2010

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 1,500
Deductions	
Instruction, regular	
Scholarships	<u>1,500</u>
Change in net assets	-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ -</u></u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010

**Note 1. Summary of Significant Accounting Policies**

The Louisa-Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the Cities of Letts, Grandview and Fruitland, Iowa, and the agricultural territory in Louisa and Muscatine Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Louisa-Muscatine Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Louisa-Muscatine Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in jointly governed organizations that provide services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Louisa County and Muscatine County Assessor's Conference Boards.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:



*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no major proprietary funds. However, it reports two nonmajor enterprise funds. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool/Daycare Fund is used to account for the operation of the preschool and daycare programs.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, termination benefits and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-

wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$3,500
Buildings	\$3,500
Improvements other than buildings	\$3,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$3,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	5-40 years
Improvements other than buildings	15-20 years
Intangibles	5-10 years
Furniture and equipment	3-20 years

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement termination benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2010. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds, property tax receivables and income surtax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$363,018 of restricted net assets which is restricted by enabling legislation.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### **Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the IPASeducation Program, which invests in liquid investments that are placed in an SEC-registered money market fund in accordance with 17 C.F.R Section 270. 2a-7. The investments are valued at fair market value, which approximates amortized cost. At June 30, 2010, the District had invested \$4,441,802 in the IPASeducation Institutional Money Market Fund. The District also had \$18,209 invested in the Iowa Schools Joint Investment Trust, diversified portfolio at June 30, 2010. The investments in the Iowa Schools Joint Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. Because the IPASeducation Fund (the Fund) invests in short-term securities, a decline in interest rates will affect the Fund's yields as these securities mature or are sold and the Fund purchases new short-term securities with lower yields. Generally, an increase in interest rates causes the value of a debt instrument to decrease. The change in value for shorter-term securities is usually smaller than for securities with longer maturities.

Credit risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The IPASeducation Fund invests in securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The entities while chartered or sponsored by the U.S. Congress, are not funded by appropriations from the U.S. Congress and the debt or mortgage related securities issued by them are neither guaranteed nor insured by the United States Government. Nevertheless, the IPASeducation Fund will invest in only highly rated securities to minimize credit risk. These investments were not rated by Moody's Investor or Standard and Poor's services.

The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor Service. The District places no limit on the amount that may be invested in any one issuer. The investments in the Iowa Schools Joint Investment Trust and the IPASeducation Fund accounted for .2% and 99.8%, respectively, of the District's total investments.

### **Note 3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer To	Transfer From	Amount
General	Special Revenue Management	\$ 35,000
Special Revenue Management	General	35,000
Physical Plant and Equipment Levy	Daycare/Preschool	<u>50,000</u>
		<u>\$ 120,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expand the resources. The transfer from General Fund to the Management Fund was an interfund loan, which was then repaid by the Management Fund. The transfer from the Daycare/Preschool Fund to the Physical Plant and Equipment Levy Fund was to pay for costs associated with playground improvements.

## Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Construction in progress	-	4,764,481	-	4,764,481
Total capital assets, not being depreciated	90,976	4,764,481	-	4,855,457
Capital assets being depreciated:				
Buildings and improvements	12,882,004	-	-	12,882,004
Improvements other than buildings	832,005	-	-	832,005
Furniture and equipment	1,508,589	151,191	(10,800)	1,648,980
Total capital assets being depreciated	15,222,598	151,191	(10,800)	15,362,989
Less accumulated depreciation for:				
Buildings and improvements	6,517,433	315,547	-	6,832,980
Improvements other than buildings	701,511	17,617	-	719,128
Furniture and equipment	1,091,300	108,124	(10,800)	1,188,624
Total accumulated depreciation	8,310,244	441,288	(10,800)	8,740,732
Total capital assets being depreciated, net	6,912,354	(290,097)	-	6,622,257
Governmental activities capital assets, net	<u>\$ 7,003,330</u>	<u>\$ 4,474,384</u>	<u>\$ -</u>	<u>\$ 11,477,714</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 203,265	\$ 4,770	\$ (1,332)	\$ 209,367
Less accumulated depreciation	188,977	4,723	(1,332)	195,032
Business type activities capital assets, net	<u>\$ 14,288</u>	<u>\$ 47</u>	<u>\$ -</u>	<u>\$ 14,335</u>

Depreciation expense was charged to the following functions:

### Governmental activities

Instruction	
Regular	\$ 2,010
Other	969
Support services	
Administration	6,553
Operation and maintenance of plant	7,462
Transportation	83,234
	100,228
Unallocated depreciation	341,060
Total governmental activities depreciation expense	<u>\$ 441,288</u>

### Business type activities

Food services	<u>\$ 4,723</u>
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## Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 805,000	\$ -	\$(395,000)	\$ 410,000	\$ 410,000
QSCB revenue bonds	-	5,300,000	-	5,300,000	-
Termination benefits	40,000	150,000	(20,000)	170,000	65,000
Net OPEB liability	-	15,676	-	15,676	-
Totals	<u>\$ 845,000</u>	<u>\$ 5,465,676</u>	<u>\$(415,000)</u>	<u>\$ 5,895,676</u>	<u>\$ 475,000</u>

Interest costs incurred and charged to expense on all long-term debt was \$198,998 for the year ended June 30, 2010. During the year ended June 30, 2010, the District made principal payments on long-term debt of \$415,000. Payments on the GO bonds are made directly from the Debt Service Fund. Payments on the Revenue bonds are made from the Capital Projects Fund.

### Termination Benefits

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must be at least age fifty-five and have completed fifteen years of consecutive service to the District. Employees must complete an application, which is required to be approved by the Board of Education. Benefits can be received in a lump sum payment in the year following retirement, in two annual payments beginning in the year following retirement or by participation in the District's 125 cafeteria plan until the employee reaches age 65. Actual termination benefit expenditures for the year ended June 30, 2010 were \$20,000. At June 30, 2010, the District had obligations to seven participants totaling of \$170,000. This long-term liability is generally liquidated with funds from the Management Levy.

### General Obligation Bonds

Details of the district's June 30, 2010 general obligation bonded indebtedness are as follows:

Year	Bond issue of March 3, 2004			
Ending	Interest			
June 30,	Rates	Interest	Principal	Total
2011	5.00	\$ 20,500	\$ 410,000	\$ 430,500



## QSCB Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of November 17, 2009			
	Interest Rates	Interest	Principal	Total
2011	2.84	\$ 168,917	\$ -	\$ 168,917
2012	2.84	150,520	-	150,520
2013	2.84	150,520	-	150,520
2014	2.84	150,520	-	150,520
2015	2.84	150,520	-	150,520
2016-2020	2.84	752,600	-	752,600
2021-2025	2.84	<u>677,340</u>	<u>5,300,000</u>	<u>5,977,340</u>
Totals		<u>\$ 2,200,937</u>	<u>\$ 5,300,000</u>	<u>\$ 7,500,937</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$5,300,000 of bonds issued in November 2009. The bonds were issued for the purpose of financing a portion of the costs of a geothermal system and remodeling project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2025. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual interest payments on the bonds are expected to require approximately 30 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$7,500,937. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$490,847.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) Proceeds of the bonds shall be deposited into the Project Account, which is to be used to finance the construction project. Interest earned by the Project Account shall remain in the Project Account and be spent in accordance with the resolution and applicable provisions of the Code.
- b) All proceeds from the statewide sales, services and use tax shall be placed in the Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into the Sinking Account to pay the principal and interest requirements of the revenue bonds.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.
- e) \$225,531 of the proceeds from issuance of the revenue bonds shall be deposited to the Sinking Account to be used solely for the purpose of paying principals and interest on the bonds if insufficient money is available in the Revenue Account.

## **Note 6. Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.30%, 4.10 % and 3.90% of their annual covered salary and the District was required to contribute 6.65%, 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$355,490, \$340,455 and \$310,837, respectively, equal to the required contributions for each year.

## **Note 7. Other Postemployment Benefits (OPEB)**

The District implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 137 active, of which 95 elected out of coverage, and 14 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. Upon retirement, the retired participant is assumed to pay 100 percent of the required premium. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 24,031
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	24,031
Contributions made	<u>(8,355)</u>
Increase in net OPEB obligation	15,676
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 15,676</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$8,355 to the medical plan. Plan members eligible for benefits contributed \$5,000 or 60% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
06/30/10	\$ 24,031	34.8%	\$ 15,676

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$209,184, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$209,184. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.54 million and the ratio of UAAL to covered payroll was 36.4%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected premiums of the medical plan are \$3,493 per month for retirees less than age 65 and \$3,493 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **Note 8. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$330,730 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### **Note 10. Related Party Transactions**

During the year ended June 30, 2010, the District entered into business transactions totaling \$705 with Kemp and Son, Inc., a company partly owned by Board President Angie Kemp. The transactions were for snow removal and repairs and were entered into through the competitive bidding process.

## **Note 11. Contingencies**

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2010, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

## **Note 12. Construction Commitment**

The District began a construction project in October 2009 to install a geothermal system and HVAC upgrades at the high school building and remodel the kitchen and various rooms at the high school building. The project is expected to cost approximately \$5,295,000 and to be completed during the fiscal year ending June 30, 2011. At June 30, 2010, the District has entered into contracts totaling \$5,699,150 for these projects and costs of \$4,418,595 had been incurred against the contracts. The balance of \$1,280,555 remaining on the contracts at June 30, 2010 will be paid as work on the projects progresses. Also in October 2009, the District was approved for \$5,285,000 in Qualified School Construction Bonds to fund the project.

## **Note 13. New Governmental Accounting Standards Board (GASB) Statements**

The District implemented the following statements during the year ended June 30, 2010:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The effect of the adoption of this Statement to the District was to record a liability of \$15,676 for the net other postemployment benefit obligation. The actuarial accrued liability is estimated by an actuary to be \$209,184.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for

capital assets should be applied to these intangible assets. This Statement had no effect to the District since the District had no intangible assets to be reported as of June 30, 2010.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in the Statement also addresses hedge accounting requirements. This Statement had no effect to the District. Furthermore, Iowa Code Chapter 128.10 does not authorize districts to invest in derivative instruments.
- GASB Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs. The adoption of this statement had no effect to the District.

As of June 30, 2010, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Issued March 2009, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance clarifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which government is bound to observe spending constraints.
- GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides

financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

#### **Note 14. Categorical Funding**

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

<u>Program</u>	
Property tax and state aid financed home school assistance program	\$ 10,382
Property tax and state aid financed weighted at-risk program	8,622
Returning dropouts and dropout prevention programs	42,537
Teacher comp, beginning teacher mentoring and induction program	310
Teacher comp, teacher salary supplement	199
Iowa early intervention block grant	21,270
Educator quality, market factor incentives	7,742
Educator quality, professional development	10,978
Edicatpr qiaality, market factor incentives	<u>796</u>
	<u>\$ 102,836</u>

## Required Supplementary Information



LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
<b>Revenues</b>						
Local sources	\$4,980,480	\$318,544	\$5,299,024	\$ 5,295,649	\$5,295,649	\$ 3,375
State sources	3,409,681	4,081	3,413,762	4,347,875	4,347,875	(934,113)
Federal sources	682,620	209,037	891,657	355,000	355,000	536,657
Total revenues	<u>9,072,781</u>	<u>531,662</u>	<u>9,604,443</u>	<u>9,998,524</u>	<u>9,998,524</u>	<u>(394,081)</u>
<b>Expenditures/Expenses</b>						
Instruction	5,751,047	79,306	5,830,353	6,435,000	6,435,000	604,647
Support services	2,502,765	24,612	2,527,377	2,845,700	2,845,700	318,323
Non-instructional programs	7,403	375,979	383,382	429,000	429,000	45,618
Other expenditures	5,495,423	-	5,495,423	2,233,028	6,500,000	1,004,577
Total expenditures/expenses	<u>13,756,638</u>	<u>479,897</u>	<u>14,236,535</u>	<u>11,942,728</u>	<u>16,209,700</u>	<u>1,973,165</u>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<u>(4,683,857)</u>	<u>51,765</u>	<u>(4,632,092)</u>	<u>(1,944,204)</u>	<u>(6,211,176)</u>	<u>1,579,084</u>
<b>Net other financing sources</b>	<u>5,350,000</u>	<u>(50,000)</u>	<u>5,300,000</u>	<u>-</u>	<u>5,300,000</u>	<u>-</u>
<b>Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses</b>	<u>666,143</u>	<u>1,765</u>	<u>667,908</u>	<u>(1,944,204)</u>	<u>(911,176)</u>	<u>1,579,084</u>
Balance, beginning of year	<u>3,728,183</u>	<u>172,021</u>	<u>3,900,204</u>	<u>3,585,766</u>	<u>3,585,766</u>	<u>314,438</u>
Balance, end of year	<u>\$4,394,326</u>	<u>\$173,786</u>	<u>\$4,568,112</u>	<u>\$ 1,641,562</u>	<u>\$2,674,590</u>	<u>\$1,893,522</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures or expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$4,266,972.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress for the  
Retiree Health Plan  
Required Supplementary Information

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
2010	July 1, 2009	\$ -	\$209,184	\$209,184	\$ -	\$5,541,441	3.8%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

## Other Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2010

Schedule 1

	<u>Special Revenue</u>				
	Student	Management	Physical Plant and Equipment	Debt	
	<u>Activity</u>	<u>Levy</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
<b>Assets</b>					
Cash and pooled investments	\$ 50,418	\$ 67,235	\$329,366	\$294,648	\$ 741,667
Receivables					
Property tax					
Delinquent	-	1,909	2,814	6,227	10,950
Succeeding year	-	300,000	201,589	430,899	932,488
Income surtax	-	-	30,838	-	30,838
Total assets	<u>\$ 50,418</u>	<u>\$ 369,144</u>	<u>\$564,607</u>	<u>\$731,774</u>	<u>\$1,715,943</u>
<b>Liabilities and Fund Balances</b>					
Liabilities					
Deferred revenue					
Succeeding year property tax	\$ -	\$ 300,000	\$201,589	\$430,899	\$ 932,488
Income surtax	-	-	30,838	-	30,838
Total liabilities	<u>-</u>	<u>300,000</u>	<u>232,427</u>	<u>430,899</u>	<u>963,326</u>
Fund balances					
Reserved for debt service	-	-	-	300,875	300,875
Unreserved fund balances	50,418	69,144	332,180	-	451,742
Total fund balances	<u>50,418</u>	<u>69,144</u>	<u>332,180</u>	<u>300,875</u>	<u>752,617</u>
Total liabilities and fund balances	<u>\$ 50,418</u>	<u>\$ 369,144</u>	<u>\$564,607</u>	<u>\$731,774</u>	<u>\$1,715,943</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2010

Schedule 2

	<u>Special Revenue</u>				
	<u>Student</u>	<u>Management</u>	<u>Physical</u> <u>Plant and</u> <u>Equipment</u>	<u>Debt</u> <u>Service</u>	<u>Total</u>
Revenues	<u>Activity</u>	<u>Levy</u>	<u>Levy</u>		
Local sources					
Local taxes	\$ -	\$ 130,061	\$228,055	\$435,660	\$793,776
Other	142,915	11,831	4,791	1,302	160,839
State sources	-	65	99	217	381
Total revenues	<u>142,915</u>	<u>141,957</u>	<u>232,945</u>	<u>437,179</u>	<u>954,996</u>
Expenditures					
Current					
Instruction					
Regular	-	51,315	90,648	-	141,963
Special	-	2,499	-	-	2,499
Other	133,175	1,670	-	-	134,845
Total instruction	<u>133,175</u>	<u>55,484</u>	<u>90,648</u>	<u>-</u>	<u>279,307</u>
Support services					
Student	-	864	-	-	864
Instructional staff	-	1,038	-	-	1,038
Administration	-	5,984	5,605	-	11,589
Operation and maintenance of plant	5,766	52,688	1,812	-	60,266
Transportation	-	15,909	81,476	-	97,385
Total support services	<u>5,766</u>	<u>76,483</u>	<u>88,893</u>	<u>-</u>	<u>171,142</u>
Non-instructional programs	-	7,403	-	-	7,403
Other expenditures					
Facilities acquisition	-	-	55,988	-	55,988
Long-term debt					
Principal	-	87	-	395,000	395,087
Interest and fiscal charges	-	-	-	40,650	40,650
Total other expenditures	<u>-</u>	<u>87</u>	<u>55,988</u>	<u>435,650</u>	<u>491,725</u>
Total expenditures	<u>138,941</u>	<u>139,457</u>	<u>235,529</u>	<u>435,650</u>	<u>949,577</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,974</u>	<u>2,500</u>	<u>(2,584)</u>	<u>1,529</u>	<u>5,419</u>
Other financing sources (uses)					
Interfund operating transfers in	-	35,000	50,000	-	85,000
Interfund operating transfers (out)	-	(35,000)	-	-	(35,000)
Total other financing sources	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net change in fund balances	3,974	2,500	47,416	1,529	55,419
Fund balances, beginning of year	46,444	66,644	284,764	299,346	697,198
Fund balances, end of year	<u>\$ 50,418</u>	<u>\$ 69,144</u>	<u>\$332,180</u>	<u>\$300,875</u>	<u>\$752,617</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2010

Schedule 3

	<u>School Nutrition</u>	<u>Daycare &amp; Preschool</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$132,607	\$44,294	\$176,901
Accounts receivable	-	195	195
Inventories	12,454	-	12,454
Capital assets, net of accumulated depreciation	<u>14,335</u>	<u>-</u>	<u>14,335</u>
Total assets	<u>159,396</u>	<u>44,489</u>	<u>203,885</u>
<b>Liabilities</b>			
Salaries and benefits payable	23,771	-	23,771
Deferred revenue	<u>6,328</u>	<u>-</u>	<u>6,328</u>
Total liabilities	<u>30,099</u>	<u>-</u>	<u>30,099</u>
<b>Net Assets</b>			
Invested in capital assets	14,335	-	14,335
Unrestricted	<u>114,962</u>	<u>44,489</u>	<u>159,451</u>
Total net assets	<u><u>\$129,297</u></u>	<u><u>\$44,489</u></u>	<u><u>\$173,786</u></u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2010

Schedule 4

	<u>School Nutrition</u>	<u>Daycare &amp; Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$213,317	\$104,657	\$317,974
Operating expenses			
Instruction			
Regular			
Salaries	-	59,775	59,775
Benefits	-	14,042	14,042
Purchased services	-	25	25
Supplies	-	5,464	5,464
	<u>-</u>	<u>79,306</u>	<u>79,306</u>
Support services			
Administration			
Salaries	20,619	-	20,619
Benefits	2,985	-	2,985
Purchased services	1,008	-	1,008
	<u>24,612</u>	<u>-</u>	<u>24,612</u>
Non-instructional programs			
Food service operations			
Salaries	145,657	-	145,657
Benefits	26,477	-	26,477
Purchased services	9,804	-	9,804
Supplies	189,317	-	189,317
Depreciation	4,724	-	4,724
	<u>375,979</u>	<u>-</u>	<u>375,979</u>
Total operating expenses	<u>400,591</u>	<u>79,306</u>	<u>479,897</u>
Operating income (loss)	<u>(187,274)</u>	<u>25,351</u>	<u>(161,923)</u>
Non-operating revenue			
Interest income	344	226	570
State sources	4,081	-	4,081
Federal sources	209,037	-	209,037
Total non-operating revenue	<u>213,462</u>	<u>226</u>	<u>213,688</u>
Net income before transfers	26,188	25,577	51,765
Transfers out	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>
Net income (loss)	26,188	(24,423)	1,765
Net assets, beginning of year	103,109	68,912	172,021
Net assets, end of year	<u>\$129,297</u>	<u>\$ 44,489</u>	<u>\$173,786</u>

See accompanying Independent Auditor's Report.



LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2010

Schedule 5

	School <u>Nutrition</u>	Daycare & <u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 214,653	\$104,462	\$ 319,115
Cash payments to employees for services	(197,981)	(73,817)	(271,798)
Cash payments to suppliers for goods and services	<u>(174,928)</u>	<u>(5,514)</u>	<u>(180,442)</u>
Net cash provided by (used in) operating activities	<u>(158,256)</u>	<u>25,131</u>	<u>(133,125)</u>
Cash flows from non-capital financing activities			
Operating transfers to other fund	-	(50,000)	(50,000)
State grants received	4,081	-	4,081
Federal grants received	<u>181,386</u>	<u>-</u>	<u>181,386</u>
Net cash provided by (used in) non-capital financing activities	<u>185,467</u>	<u>(50,000)</u>	<u>135,467</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	<u>(4,770)</u>	<u>-</u>	<u>(4,770)</u>
Cash flows from investing activities			
Interest on investments	<u>344</u>	<u>226</u>	<u>570</u>
Net increase (decrease) in cash and cash equivalents	22,785	(24,643)	(1,858)
Cash and cash equivalents, beginning of year	<u>109,822</u>	<u>68,937</u>	<u>178,759</u>
Cash and cash equivalents, end of year	<u><u>\$ 132,607</u></u>	<u><u>\$ 44,294</u></u>	<u><u>\$ 176,901</u></u>

**Reconciliation of operating income (loss) to net cash  
provided by (used in) operating activities**

Operating income (loss )	\$(187,274)	\$ 25,351	\$(161,923)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	4,724	-	4,724
Commodities used	27,651	-	27,651
(Increase) in accounts receivable	-	(220)	(220)
(Increase) in inventory	(841)	-	(841)
(Decrease) in accounts payable	(1,609)	-	(1,609)
Increase in deferred revenue	1,336	-	1,336
(Decrease) in accrued salaries and benefits	<u>(2,243)</u>	<u>-</u>	<u>(2,243)</u>
Net cash provided by (used in) operating activities	<u><u>\$(158,256)</u></u>	<u><u>\$ 25,131</u></u>	<u><u>\$(133,125)</u></u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2010 the District received \$27,651 of federal commodities.

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2010

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 1,418	\$ 59,218	\$ 57,018	\$ 6,783	\$ 10,401
Athletic fundraising	1,680	1,673	1,431	-	1,922
Athletic resale	-	519	519	-	-
Cheerleading fundraising	3,383	2,953	2,716	-	3,620
Cheerleading resale	-	1,798	1,798	-	-
Ads and posters	6,783	1,500	-	(6,784)	1,499
Jr high	229	1,689	2,021	-	(103)
Elementary activity	4,242	3,366	2,417	-	5,191
Concessions	6,693	9,854	9,755	(271)	6,521
FFA	9,366	10,052	14,186	-	5,232
Band	4,727	17,926	14,503	(1,647)	6,503
Speech	-	-	113	250	137
Drama	962	-	-	-	962
Student council	971	951	1,380	-	542
Yearbook	2,759	4,134	3,788	-	3,105
Quiz bowl	-	303	365	250	188
Vocal music	1,425	14,764	15,756	1,647	2,080
TAG	53	250	-	-	303
Senior class	416	4,160	4,385	889	1,080
NHS	-	4,349	4,412	414	351
Junior class	404	-	-	(404)	-
Interest	933	194	-	(1,127)	-
FFA Vending	-	3,262	2,378	-	884
Totals	<u>\$ 46,444</u>	<u>\$ 142,915</u>	<u>\$ 138,941</u>	<u>\$ -</u>	<u>\$ 50,418</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Seven Years

Schedule 7

	Modified Accrual Basis						
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues							
Local sources							
Local tax	\$ 3,943,319	\$4,132,933	\$4,000,876	\$3,931,457	\$3,909,874	\$3,766,108	\$ 3,099,130
Tuition	785,368	860,156	757,169	553,573	553,280	508,531	621,015
Other	251,793	426,907	417,193	336,277	283,281	314,894	271,674
State sources	3,409,681	4,057,811	4,510,165	3,964,926	3,659,560	3,661,562	3,247,182
Federal sources	682,620	289,315	161,365	193,488	182,377	165,659	204,663
Total revenues	<u>\$ 9,072,781</u>	<u>\$9,767,122</u>	<u>\$9,846,768</u>	<u>\$8,979,721</u>	<u>\$8,588,372</u>	<u>\$8,416,754</u>	<u>\$ 7,443,664</u>
Expenditures							
Current							
Instruction							
Regular	\$ 3,778,375	\$3,868,239	\$3,919,409	\$3,498,070	\$3,231,244	\$3,082,267	\$ 3,129,887
Special	881,135	939,238	871,910	868,993	722,969	804,476	843,113
Other	1,091,537	1,016,267	677,268	750,354	771,639	645,212	496,931
Support services							
Student	247,448	208,830	212,602	202,923	196,937	232,680	220,136
Instructional staff	341,147	313,337	288,542	409,712	423,431	373,511	236,691
Administration	798,346	760,514	801,954	651,981	705,263	601,085	606,526
Operation and maintenance of plant	654,292	658,326	707,958	653,872	598,758	533,134	549,730
Transportation	459,268	483,092	503,815	624,877	447,702	428,106	415,983
Central support	2,264	467	-	-	-	-	-
Non-instructional programs	7,403	8,403	-	-	162	4,049	2,545
Other expenditures							
Facilities acquisition	4,662,706	283,477	159,735	290,843	300,390	62,814	122,785
Long-term debt							
Principal	461,337	830,000	500,000	470,000	445,000	433,338	3,033,740
Interest and other charges	40,650	79,970	103,833	127,232	148,857	201,910	271,131
AEA flowthrough	330,730	311,337	308,167	278,396	259,272	248,857	241,253
Total expenditures	<u>\$13,756,638</u>	<u>\$9,761,497</u>	<u>\$9,055,193</u>	<u>\$8,827,253</u>	<u>\$8,251,624</u>	<u>\$7,651,439</u>	<u>\$ 10,170,451</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2010

Schedule 8

Grantor/Program	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>	
<b>Indirect</b>				
<b>U.S. Department of Agriculture</b>				
Iowa Department of Education				
School Nutrition Cluster Programs				
School Breakfast Program	10.553	FY10	\$ 27,514	
National School Lunch Program	10.555	FY10	181,522	*
Total Department of Agriculture			<u>209,036</u>	
<b>U.S. Department of Education</b>				
Iowa Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	FY10	90,973	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	<u>24,045</u>	
			115,018	
Safe and Drug-free Schools and Communities-State Grants	84.186	FY10	2,536	
Advanced Placement Program	84.330	FY10	56	
Improving Teacher Quality State Grants	84.367	FY10	33,362	
Grants for State Assessments and Related Activities	84.369	FY10	5,798	
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	<u>364,686</u>	
Total Iowa Department of Education			<u>521,456</u>	
Grant Wood Area Education Agency				
Special Education-Grants to States	84.027	FY10	43,675	**
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	<u>65,523</u>	**
Total Area Education Agency			<u>109,198</u>	
Total Department of Education			<u>630,654</u>	
Total federal awards			<u><u>\$ 839,690</u></u>	

\* Include \$27,651 of non-cash awards

\*\* Total for Special Education Cluster (IDEA) is \$109,198

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Louisa-Muscatine Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

# **KAY L. CHAPMAN, CPA PC**

119 West Mississippi Drive Suite 3  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education  
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated January 20, 2011. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal

control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisa-Muscatine Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Louisa-Muscatine Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Louisa-Muscatine Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Louisa-Muscatine Community School District and other parties to whom Louisa-Muscatine Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Louisa-Muscatine Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
January 20, 2011

# KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite 3  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education  
Louisa-Muscatine Community School District

### Compliance

I have audited the compliance of Louisa-Muscatine Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Louisa-Muscatine Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Louisa-Muscatine Community School District's management. My responsibility is to express an opinion on Louisa-Muscatine Community School District's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisa-Muscatine Community School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Louisa-Muscatine Community School District's compliance with those requirements.

In my opinion, Louisa-Muscatine Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

### Internal Control Over Compliance

The management of Louisa-Muscatine Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning

and performing my audit, I considered Louisa-Muscatine Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified deficiencies in internal control over compliance I consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of the control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. I consider the deficiency<sup>2</sup> in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Louisa-Muscatine Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit Louisa-Muscatine Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Louisa-Muscatine Community School District and other parties to whom Louisa-Muscatine Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC  
January 20, 2011



LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**Part I. Summary of the Independent Auditor's Results**

1. Unqualified opinions were issued on the financial statements.
2. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.
4. A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
  - CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
  - Clustered programs:
    - CFDA Number 10.553 School Breakfast Program
    - CFDA Number 10.555 National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Louisa-Muscatine Community School District did not qualify as a low-risk auditee.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**Part II. Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCIES**

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

II-B-10 Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. Capital Projects Fund payables were understated by \$213,414 due to the retainage payable on the building project and the Construction in Progress in the capital assets was understated by \$811,204 due to a coding error. These misstatements were corrected prior to the District's CAR being filed with the Department of Education.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide more oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

INSTANCES OF NON-COMPLIANCE

No matters were noted.

**Part III. Findings and Questioned Costs for Federal Awards**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCY

CFDA Number 10.553 School Breakfast Program  
CFDA Number 10.555 National School Lunch Program  
Federal Award Year: 2010  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State  
Grants, Recovery Act  
Federal Award Year: 2010  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and plan to make the necessary changes, as we deem necessary, to improve internal control.

Conclusion - Response accepted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

**Part IV. Other Findings Related to Required Statutory Reporting:**

1. Certified Budget - Expenditures for the year ended June 30, 2010 did not exceed the amounts budgeted.
2. Questionable Expenditures - No expenditures I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Angie Kemp, board member part owner of Kemp & Son, Inc.	snow removal and repairs	\$705

The transactions with Board Member Kemp's business does not appear to represent a conflict of interest since it was competitively bid, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2010

9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

Beginning balance		\$ 868,962
Revenues		
Statewide sales and services tax revenue	\$ 490,847	
Interest earned	14,469	
Debt issuance for school infrastructure	<u>5,300,000</u>	5,805,316
Expenditures/transfers out		
School infrastructure		
Buildings	(4,606,718)	
Debt service for school infrastructure		
Revenue debt	<u>( 66,250)</u>	<u>(4,672,968)</u>
Ending balance		<u>\$ 2,001,310</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000	Property
	of Taxable	Tax
	<u>Valuation</u>	<u>Dollars</u>
Debt service levy	\$ 0.35603	\$ 490,847

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2010

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Summary Schedule of Prior Federal Audit Findings  
For the Year Ended June 30, 2010

The district was not required to have a Single Audit in compliance with OMB Circular A-133 for the prior year (year ended June 30, 2009) therefore, there were no prior audit findings to report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT  
Corrective Action Plan for Federal Audit Findings  
For the Year Ended June 30, 2010

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	Contact Person, Title, <u>Phone Number</u>	Anticipated Date of <u>Completion</u>
III-A-10	Segregation of Duties	District will investigate and implement alternative procedures to increase segregation of duties.	Karron Stineman Business Manager (319) 726-3541	6/30/2011